Reviving the HUD Section 235 program, for which funds were last authorized in fiscal year 1984 and whose authorization is scheduled to be terminated at the end of fisal year 1989, would help lower-income urban households own a home. As authorized by the Housing and Urban-Rural Recovery Act (HURRA) of 1983, this program helps households obtain mortgages from private lenders that are insured and subsidized by HUD, generally for up to 10 years. Households are required to pay at least 28 percent of their adjusted income for mortgage payments and are subject to provisions similar to those required under the Section 502 program to recapture past subsidies. The amount of the subsidy is based on the difference between the FHA interest rate in force at the time of endorsement and a subsidy floor of 4 percent. Additional federal outlays are incurred if homebuyers default, and if insurance claims paid to mortgage-lending institutions exceed net proceeds received from the sale of foreclosed properties.

One advantage of this approach is that the impact on federal outlays can be spread over many years, as in the Section 235 program. While this is not strictly the case for the Section 502 program--because of the direct loan aspect--the cost of the subsidy is also spread over time in the sense that the household's annual interest payments fall short of the government's cost of borrowing for the direct loan. In addition, without the FmHA fulfilling the role of banker in a location that has a shortage of lenders, some households may not be able to obtain loans in the first place. On the other hand, under both programs, the government assumes the risk of default and continues to be involved over the life of the mortgage, thus incurring administrative costs.

Reduced Mortgages

Several strategies that can reduce the principal amount of the mortgage were authorized by the Housing and Community Development Act of 1987. Under the Nehemiah housing opportunities grants program, nonprofit sponsors will build or substantially rehabilitate a predetermined number of housing units concentrated in certain distressed neighborhoods, and will receive grants from HUD to provide interest-free second mortgages of up to $15,000 to lower- and moderate-income buyers of these homes. These mortgages do not have to be repaid to HUD until the houses are sold. Monthly housing costs will be lower because the second mortgages will reduce the amount of the first mortgage. The ultimate costs to the federal government will consist of the forgone interest on the amount of the loan; costs payable to nonprofit organizations for administering the program; and, presumably, any part of the second mortgage not recouped when the home is sold. No funds were appropriated for 1988, and only $20 million for 1989, however, and the authorization for the program is scheduled to terminate at the end of fiscal year 1989.

Because of its up-front grant nature, this type of strategy limits government involvement, thus keeping administrative costs to a minimum. In addition, concentrating funds in selected lower-income neighborhoods might help revive decaying areas and add permanently to the housing supply available to lower- and moderate-income households. On the other hand, by providing the subsidy up front, outlays are not spread over time. Moreover, in contrast to the interest-subsidy approach, the government cannot adjust the size of the subsidy in response to changes in household income. Finally, the grant approach may not work in jurisdictions that do not have the potential to concentrate the required number of units in a single neighborhood because they lack either the necessary number of households or suitable parcels of land.

Another approach is to allow lower-income households to purchase public housing units at below-market cost from public housing agencies (PHAs)--state or local government agencies that develop or operate lower-income housing. Such a program would represent a transfer of assets to the public from the PHAs, which own the units even though their initial costs were fully paid by the federal government. The impact on the federal budget would depend on the program's design. Under the approach authorized by the 1987 Housing and Community Development Act, for example, the rental units thus lost from the assisted inventory must be replaced on a one-for-one basis with other forms of rental assistance.[7] Thus, the cost to the federal government will be the difference between the average operating subsidy for public housing and the cost of the replacement assistance. Alternatively, as suggested in previous legislative proposals, the program could continue operating subsidies to the new homeowner

7. This provision, as well as many other aspects of the type of program authorized by the legislation, expires at the end of fiscal year 1990.

for a limited number of years rather than replace the lost units with other rental subsidies. Such an approach would have no immediate budgetary effects, and federal outlays would fall as soon as operating subsidies ceased.[8]

Selling public housing units to lower-income households may ease their transition from renter to homeowner. Many of the households that purchased their units might have lived there for a number of years and would thus avoid the psychological costs associated with moving to a new environment. In addition, if resident management organizations were formed, as stipulated in the 1987 act, technical assistance for home maintenance and repairs and perhaps household budgeting could be provided readily to the new homeowners. Furthermore, supporters of privatization argue that this approach would help reduce the federal role in subsidizing lower-income housing.

On the other hand, a program designed to sell public housing units to lower-income households may result in the loss of the best-maintained units in that inventory. Households that are among the most well-off of the eligible population would receive a valuable asset that, instead, could have provided housing services to much poorer families for many years at substantially lower annual costs to the federal government than many other possible types of rental assistance. Furthermore, unless such a program strictly limited the amount of capital gains that could accrue to the owner upon selling the unit, and unless it required the units to be resold to other lower-income households (as mandated by the current provisions in the 1987 act), it would contribute further to uneven treatment of households with similar incomes. In other words, the opportunity for one-time capital gains would be provided to only a few fortunate households.

Vouchers for Homeowners

Another approach for assisting lower-income homeowners would be to expand eligibility for Section 8 existing-housing certificates and

8. The question of private ownership of public housing raises a host of issues and needs a more extensive analysis than this brief overview to evaluate the relative merits of options for implementing such a program. HUD is now conducting a demonstration of public housing homeownership to examine the feasibility of a wide variety of approaches designed by local PHAs.

vouchers to include them. Unlike the options discussed above, this approach would address housing-related problems among lower-income households that already own their homes. As shown in Chapter II, in 1985 over 5 million very-low-income homeowners--half of them elderly--spent more than 30 percent of their income for housing.

Such a program, if designed properly, might also encourage homeownership among very-low-income households. The Experimental Housing Allowance Program (EHAP) found that only between 2 percent and 3 percent of renters purchased homes after receiving vouchers. Thus, to stimulate homeownership among the poor through this approach, the federal government might need to provide additional encouragement--perhaps in the form of higher subsidies than provided under EHAP, help with downpayments, or technical assistance--all of which would increase costs. To help pay for such a program, the government could recapture part or all of the subsidies from any capital gains realized upon sale of the home, as in the Section 502 and 235 programs.

Such aid would reduce the likelihood of lower-income homeowners falling behind in their mortgage payments or property taxes, thus helping prevent foreclosure. It might be particularly effective for very-low-income elderly households, who are much more likely to be homeowners than renters and who face relatively high ratios of housing costs to income, often as a result of their incomes falling when they retire. Expanding eligibility for assistance to homeowners would give these elderly households the option of continuing their independent living arrangements rather than giving up their homes and moving into rental units where they might also need federal subsidies. Such aid might also generate better living environments, as evidenced by EHAP's finding that, in addition to making required repairs to meet housing standards, three-quarters of all homeowners receiving vouchers voluntarily undertook home improvements.

On the other hand, while making very-low-income homeowners eligible for this form of aid would smooth out differential treatment of renters and homeowners with the same annual incomes, many of these homeowners have substantial assets in the form of accumulated equity in their homes and already live in better-quality homes than their counterparts who rent their dwelling units. Thus, in these respects, homeowners are relatively better off than renters with the same annual incomes.

TYPES OF RENTAL ASSISTANCE

Debates on rental assistance typically do not involve the question of whether or not to continue supplying this form of aid. Rather, they tend to focus on what types of assistance to provide--that is, on the mix of existing-housing or household-based aid versus project-based aid and, within each of these basic approaches, on which programs to fund. Existing-housing programs include Section 8 certificates and vouchers. The current choices for project-based aid primarily include programs for new construction and rehabilitation, although the Housing and Community Development Act of 1987 now allows up to 15 percent of Section 8 existing-housing certificates to be attached to particular structures.[9]

Existing-Housing versus New Construction and Substantial Rehabilitation

The proportion of additional rental commitments provided each year through existing-housing programs has steadily increased over the past 12 years. Under current policy--that is, the program mix stipulated in the 1989 appropriations--about 65,000 new commitments would be made annually to assist households living in units of their choosing in the existing-housing stock, and 37,000 additional commitments (around 36 percent of all new rental aid) would be provided for newly constructed and rehabilitated units. This current mix could be altered by placing more emphasis on production-oriented programs, or by continuing to shift the mix of new aid away from this approach or perhaps abandon it, as proposed in recent Administration budgets.

9. Some project-based aid, provided through the Section 8 loan management and property disposition programs, helps lower-income households who live in troubled projects that are federally insured or assisted. These programs are not considered here, because the issues involved in the decision to fund them are quite different, revolving mostly around the efficient financial management of the insured and assisted housing stock.

Emphasizing the use of existing housing and further decreasing or eliminating new construction and rehabilitation programs would probably be the fastest and simplest way to help the largest number of households at the least cost. Past research has shown new construction programs to be as much as double the cost of subsidizing families through such programs as Section 8 existing-housing and vouchers.[10] Furthermore, observers who see little need for subsidizing new construction argue that the overwhelming housing problem today is generally not a shortage of rental units per se, but the inability of poor households to afford the rents their units command.[11] Even if there were shortages, subsidized new construction can, at best, have an impact only with a long lag because it is slow to be put in place. Finally, subsidizing new construction may be displacing private construction activity rather than adding to the total housing stock.

Using the existing stock to a greater degree also would enable more assisted households to choose where to live and would prevent the stigma and isolation that may be associated with living in projects specially constructed for lower-income households. In addition, this approach would reduce the common problem of how to target funds for production programs efficiently and would leave it to the private market to determine where new construction would respond to excess demand.

Emphasizing existing-housing aid over production assistance would also reduce discrepancies in the quality of units occupied by recipients of housing aid. Some recipients currently occupy brand new units, whose quality and amenities probably surpass those of many units occupied by noneligible households with slightly higher incomes and by other assisted households. Among the latter group, some households live in old, possibly decaying, public housing projects. Others, assisted with vouchers or Section 8 certificates, have access to

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10. See, for example, the research described in Chapter III.

11. Many analysts contend that the private market has been producing enough rental units to meet overall demand, as evidenced by several indicators. First, recent levels of rental apartment construction have been at their highest since 1974. Second, the rates at which these new rental units become occupied are relatively low, with less than two-thirds of new apartments that were completed during 1987 being rented within three months--the lowest level since 1969. Third, the nationwide rental vacancy rate is relatively high--7.7 percent during 1987, the highest level in 20 years. Units renting between $250 and $500 per month, which is in the range of the average FMR for 1987 for 1- and 2-bedroom units, experienced vacancy rates between 8.2 percent and 9 percent.

physically adequate units that, in order to fit within the rent guidelines, are either of modest design or located in deteriorating neighborhoods, or both.

Another argument in favor of placing increased emphasis on existing-housing aid would be that most very-low-income households that qualify for aid could use these subsidies without having to move from their current units unless they chose to do so. Aggregate statistics on housing needs, such as those presented in Chapter II, show that in 1985, more than 60 percent of all very-low-income renters faced only high rent-to-income ratios, experiencing neither crowded nor substandard housing conditions.[12] Another 15 percent lived in units that needed rehabilitation but had adequate space. Some proportion of those units, particularly those that are only marginally substandard, might be upgraded if the landlords received the higher rents made possible by rental subsidies or could obtain rehabilitation grants or loans. Thus, most very-low-income renters could receive rental aid without moving; the relatively small percentage that would have to move would consist of the 9 percent living in crowded conditions and those households (at most, another 15 percent) living in substandard units that the landlord might be unable or unwilling to repair.

On the other hand, arguments can also be made that additional new construction for lower-income households is needed. National statistics on the adequacy of the supply of rental units, for example, mask local shortages. Most recent new construction has taken place in the West and South, and extraordinarily high rental vacancy rates in some large metropolitan areas--more than 9 percent in Houston, Dallas, Miami, and Phoenix as of 1985--help account for the relatively high national average. By contrast, of the 25 largest metropolitan areas, 12 experienced vacancy rates of less than 5 percent, which many analysts accept as evidence of tight market conditions.

Aggregate supply statistics also do not reveal any nationwide, much less local, shortages in standard dwelling units of particular sizes within HUD's rental guidelines or in dwelling units suitable for

12. Some of these households might have to move if they were to receive a Section 8 certificate and their current rent exceeded the Fair Market Rent. Voucher recipients would not have to move in that case, if they were willing to continue paying more than 30 percent of their income for rent--a likely outcome, since their rent payments would still be lower than without the subsidy.

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the elderly and handicapped. While unsubsidized new construction typically occurs in response to excess demand by higher-income households, findings are inconclusive on the extent to which this eventually increases the housing supply for lower-income households through a "trickle-down" or filtering process. Moreover, units vacated by the higher-income population may not match the needs of the local lower-income population. In particular, many of the nation's large PHAs report that there are shortages of large units in their jurisdictions. Such shortages of suitable units would partially explain why families with children who receive Section 8 certificates or vouchers are somewhat less likely to become program participants than are elderly households.[13] At a minimum, tying aid to projects earmarked for lower-income households would lessen the need to search for adequate housing and may also prevent some lower-income households from having to share units with other households or becoming homeless. Thus, production-oriented programs may continue to be needed in some localities, particularly those with growing lower-income populations.

Aggregate statistics also ignore the fact that large proportions of specific subgroups of households could not be aided through existing-housing programs without moving because their current dwelling units are inadequate and that suitable units within HUD rental guidelines might not be available to them. For example, 35 percent of very-low-income renters with three or more children present would have to move because of crowded housing, while another 14 percent or so might have to move because of substandard housing conditions. Similarly, special needs of many elderly and handicapped people are not met by their current units. While only 11 percent of all very-low-income elderly renters live in physically substandard units, many others live in units that lack services for their special social and physical needs and would probably try to move if living in more expensive units were made possible by government aid. Many households in nonmetropolitan areas also would have to move, because many sub-

13. Data from past studies indicate that around three out of four large families turn back their certificates to the PHAs, compared with roughly one out of two elderly certificate holders. Preliminary national statistics from the housing voucher demonstration study show that the failure rates have decreased and that between 30 percent and 36 percent of elderly households who are issued vouchers or certificates currently fail to become program participants, compared with about 40 percent of nonelderly households. (No separate statistics are currently available on large families.) Failing to find a suitable unit has been found to be one, but not the only, reason for returning certificates or vouchers.

standard units have serious deficiencies that would require substantial rehabilitation rather than the marginal upgrading that occurs under the voucher system.[14] Finally, housing statistics by definition ignore the homeless population, whose acute needs may frequently be better served through transitional housing arrangements combined with social services rather than through independent living arrangements associated with Section 8 certificates or vouchers.

A final argument presented against phasing out production-oriented programs involves the potential loss of some units from the currently assisted inventory as they are transformed into housing for higher-income people or demolished to make room for alternative land uses. These losses will exacerbate any existing shortages in units available to lower-income households, particularly in already tight housing markets. Thus, federally assisted housing construction rather than vouchers may be needed to replace these lost units in many parts of the country.

Section 8 Existing-Housing Certificates versus Vouchers

If the existing stock is to be used to house the poor, the mix between Section 8 certificates and the recently authorized vouchers must be determined.[15]

Recipients of both Section 8 certificates and vouchers must select units that meet the program's quality standards. Unlike Section 8 certificates, however, vouchers allow households to select units with rents higher than the payment standards set by HUD, provided the households pay the excess rent. Also, if voucher recipients select a unit below the payment standard, they may retain the difference. Thus, the government's subsidy cost for a Section 8 certificate varies

14. In the past, more than half of all units subsidized with Section 8 existing-housing certificates in rural areas have failed to meet the program standards upon inspection. This failure suggests that certain defects are overlooked by inspectors when households are admitted to the program. See Department of Economics, Appalachian State University, *Evaluation of the Section 8 Existing Housing Program in Rural Areas* (June 1982).

15. As of this writing, the voucher program is being evaluated in a HUD study. Early results of this study, which compares the use of Section 8 certificates with vouchers, are presented in Abt Associates, Inc., *Report of First Year Findings for the Freestanding Housing Voucher Demonstration*, prepared for the Department of Housing and Urban Development (June 26, 1987).

both with the unit's actual rent and the household's income, while the cost for a voucher varies only with the household's income. Once a unit is subsidized, rents are adjusted annually by HUD under the Section 8 certificate program; under the voucher program, annual adjustments are made by the PHA.

Because of these differences in design, vouchers provide households with greater flexibility in choosing where to live and how much of their income to spend for housing. This flexibility lessens the pressure of having to find units with rents within the limits stipulated by the Section 8 program and, in principle, reduces the risk of being unable to participate in the program because of failure to find such units. Early results from the voucher demonstration study show, however, that in the aggregate, success rates for the first round of applicants were the same for voucher and Section 8 certificate recipients--roughly 60 percent. Only among elderly households were success rates higher for voucher recipients than for Section 8 recipients, largely because vouchers have no rent restrictions, thus permitting more elderly households to remain in their pre-program unit.

The wider choice open to voucher recipients also leads to a greater range in rents and rent-to-income ratios compared with those of Section 8 certificate recipients. Indeed, while 95 percent of all certificate recipients paid between 29 percent and 31 percent of their income for rents, only 11 percent of voucher recipients did, with almost half paying more than 31 percent and the rest paying less than 29 percent.

On the other hand, because households are allowed to keep the difference if their units rent for less than the payment standard, the initial average cost of vouchers will almost certainly exceed that of Section 8 certificates if the payment standard is set equal to the FMR for certificates. During the first year of the demonstration, vouchers cost the federal government, on average, 8 percent more than certificates. This difference may be reduced or eliminated over time, however, if PHAs do not adjust the payment standards as much as HUD increases rents for Section 8 units.

The basic feature of vouchers that allows households to pay the excess rent, if the units they choose rent for more than the payment standards, also may prompt landlords to inflate rents, particularly for households that are reluctant to move out of their current units. This view presupposes that poor households are less effective in negotiating with landlords than are PHAs, which assess the appropriateness of rents for units assisted through Section 8 certificates. Indeed, preliminary results from the demonstration show that during the program's first year, rents for voucher recipients staying in their preprogram units rose by $41 on average, compared with $29 for Section 8 certificate recipients. It is not known, however, to what extent such increases were accompanied by improved housing--that is, by repairs made to meet the program standards.[16] Furthermore, given that inflation adjustments in the subsidy paid to landlords are at the discretion of the PHAs, any increases in the rent not covered by adjustments would have to be absorbed by the tenants.

New Construction versus Rehabilitation Programs

If the Congress decided to continue supporting additional project-based aid through production-oriented programs, the allocation of funds between constructing new units and rehabilitating existing substandard ones would need to be determined.

An argument in favor of continuing recent trends of concentrating resources on rehabilitation activity and away from new construction is that as long as there are units in the existing stock that could be brought up to par at a cost below that of new construction in the same location, using federal resources to build new units would be wasteful. For example, in 1988, many vacant, uninhabitable public housing units could be rehabilitated for an estimated $26,500 per unit on average, compared with an average of $67,000 for constructing a new unit.[17] Also, federal assistance for rehabilitation of occupied lower-income housing units in various stages of disrepair not only would improve housing quality for the occupants at relatively modest cost, but would prevent further deterioration that might eventually lead to abandonment and permanent loss of these and perhaps other units.

16. The EHAP experiment found that landlords did not increase rents, but in that case the households, not the landlords, received the subsidy payments. Consequently, the landlord may not have known that the households' ability to pay had risen.

17. The estimate for rehabilitation of these public housing units is based on data provided in Department of Housing and Urban Development, *HUD Perspective on Public Housing Modernization* (March 1988). The average new construction cost is the figure used in the 1988 appropriation for new public housing units.

A policy of rehabilitation rather than new construction would not succeed, however, in areas that lack sufficient lower-income housing but contain few or no units for rehabilitation. Furthermore, targeting rehabilitation funds to areas, or to assisted housing projects, with large numbers of vacant and uninhabitable units might be especially wasteful if the vacancies were caused by a lack of demand. Although rehabilitating occupied units would address the problem of substandard housing for the current occupants, it would not alleviate spot shortages of units available to the poor unless the units would have been abandoned or demolished otherwise.

If funding for production-oriented programs in general were continued, aid could be targeted more closely toward those households for whom vouchers or Section 8 certificates appear least likely to work and toward those areas where the private market is failing to provide an adequate supply of units that meet the specific needs of the local lower-income population.[18] Specific approaches whose feasibility might be investigated include targeting funds for the Section 202 program toward areas with shortages of units designed to meet the special needs of elderly and handicapped groups, targeting public housing construction funds for production of units for large families, and producing new or rehabilitated units in nonmetropolitan areas with shortages in standard rental units. Unfortunately, however, such targeting efforts might be impossible to carry out at the federal level because, other than the decennial census, there are no national data that would reveal such local shortages.[19] Thus, implementing this approach might require transferring more spending discretion to local decisionmakers.

A policy to continue funding both new construction and rehabilitation programs would entail some further targeting decisions. To increase the net supply of lower-income units, new construction aid could be targeted toward areas with shortages of some or all types of lower-income housing units and with low proportions of substandard units in the vacant housing stock. Rehabilitation funds could be used

18. At present, funds for most housing assistance programs are allocated across the nation based on several fairly broad formulas that consider overall relative housing needs according to factors such as population, poverty, crowding, vacancy rates, and substandard housing conditions.

19. The federal government could rely on local governments to provide estimated updates of census data, but making data comparable across the nation would be difficult.

in other areas to improve vacant substandard units, provided they matched the types most in demand or could be adapted to do so at reasonable cost. For example, small units might be combined, large units subdivided, or special design features or services added, where needed. Finally, a decision to increase the quality of housing occupied by the lower-income population could be accomplished by targeting some rehabilitation funds toward areas with high proportions of substandard units in the occupied lower-income housing stock, as is currently done in the rental rehabilitation program.

CHAPTER V

OPTIONS FOR DETERMINING THE TARGET GROUPS, THE SUBSIDY SIZE, AND THE NUMBER TO SERVE

This chapter takes a closer look at the remaining questions that were introduced in the previous chapter, namely on whom to target the aid, how large a subsidy to provide, and how many households to serve. To facilitate cost estimates, the focus is on options pertaining to rental assistance provided by the Department of Housing and Urban Development. All cost estimates assume that current policy is maintained with respect to program characteristics not affected by the option, unless otherwise indicated.

WHO SHOULD RECEIVE RENTAL ASSISTANCE?

Decisions about who should receive assistance must be made on a recurring basis because of the non-entitlement nature of housing aid. As long as only a portion of all eligible households can receive it, assistance can be distributed in a variety of ways among households with different income, demographic, and locational characteristics. While the Congress has specified the criteria for eligibility, traditionally it has not prescribed in great detail how additional assistance should be distributed among eligible households. Instead, preferences have been revealed to some extent through the program mix for which funds are made available.

The choices about who should receive housing aid depend, ultimately, on whether any groups should be given priority in receiving assistance. Three options are presented here:

- Maintain current eligibility criteria and existing distribution patterns. This option would continue to give priority to elderly households.

- Maintain current eligibility criteria but shift the distribution of aid toward currently underserved groups.

- o Change both eligibility criteria and the distribution of assistance to shift aid toward different groups of poor households.

Retargeting housing aid would have cost implications to the extent that the differential between the average rent and income levels of the assisted population changed. Most options discussed here would probably have little cost impact in the short run, because they would only retarget additional aid, which is a very small proportion of the total number of outstanding commitments. The discussion below therefore focuses primarily on the nonbudgetary effects of these options.

Maintain Current Eligibility Criteria and Distribution Patterns

Currently 43 percent of all outstanding commitments serve the elderly, another 43 percent go to households with children, and the remaining 14 percent provide aid to nonelderly households without children present. Assuming that 90 percent of available aid is received by very-low-income renters, current commitments assist about half of all very-low-income elderly households with no children, a little over one-third of very-low-income families with children, and 17 percent of very-low-income nonelderly households without children present.[1]

To continue these distribution patterns, future aid could be distributed so as to preserve either the relative rates at which various groups are currently served or the relative proportions of outstanding commitments they received. If all groups of eligible households grew at the same rate over time, these two strategies would have the same effects; elderly households, however, are expected to increase faster than other segments of the eligible population.

Preserve Rates at Which Groups Are Now Served. To preserve the relative rates at which various demographic groups are served, the distribution of additional commitments would have to reflect both the relative rates of growth in eligible households of each type and the

1. As previously noted, nonelderly households without children can receive aid only under special circumstances. Thus, the proportion of these households that is served is not strictly comparable to the proportions served in the other categories of households.

proportion of aid currently received by each group. Because the elderly as a group are projected to increase at the fastest rate, their allotment of new aid would have to exceed their current 43 percent share of all outstanding commitments and they would have to receive about 48 percent of all new aid. Assuming that current policy--that is, the level of funding and the program mix stipulated in the 1989 appropriation act--would be maintained, this option could be implemented by requiring that 55 percent of new vouchers would be reserved for elderly households, rather than the roughly 32 percent that they would typically receive.

This approach would maintain patterns for which Congress has already revealed its preference. Continuing to serve the elderly at what are historically high rates could be justified because the economic status of a poor elderly household is unlikely to change much over time. Nonelderly adults and their families' financial positions might be helped more in the long term if they received federal aid to enhance their employment opportunities.[2] In addition, the costs of helping the elderly to maintain independent living arrangements, perhaps coupled with the types of congregate services (such as meals, housekeeping, and health care) available in projects designed for them, would be offset to some degree by lower federal expenditures for long-term care.

Preserving the status quo, however, would perpetuate indefinitely the uneven rates at which various household types are served, with much lower proportions of nonelderly households receiving assistance. Yet some of these underserved groups, particularly large families, have experienced housing problems much more frequently than the elderly, as shown in Chapter II. Furthermore, over time this approach would lead to rising shares of total aid going to the elderly.

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2. Comparing the economic status of the elderly as a group with that of families with children is a complicated matter. Using the official measure of poverty, the proportion of elderly households below the poverty line has decreased while the proportion of families with children in poverty has increased over the past decade. On the other hand, the proportion of elderly households with incomes between 100 percent and 125 percent of poverty is higher than that of families with children. Taking account of in-kind benefits provided by the government makes evaluating the relative positions of the two groups even more difficult, while the impact of employer-provided fringe benefits cannot be assessed at all with currently available data. For more detailed analysis, see Congressional Budget Office, *Trends in Family Income: 1970-1986* (February 1988).

Preserve Current Proportion of Commitments Received. New aid also could be made available in proportion to the current distribution of outstanding commitments--that is, 43 percent to elderly households and 43 percent to families with children. This option could be implemented roughly by reserving these proportions of new vouchers for each of these groups.

Maintaining the status quo in this way would make more even the rates at which various types of households are served, because it would not take into account the relatively high near-term increase in the number of eligible elderly households. On the other hand, it would not recognize what some observers consider to be a greater need and governmental responsibility to assist the elderly than to aid families with children. Also, distributing new assistance in this way would increase the federal cost per household somewhat compared with the previous option, because of the relatively larger and more expensive units required by families with children.

Maintain Current Eligibility Criteria but Shift Distribution of Aid Toward Underserved Groups

Shifting the overall distribution of rental assistance toward underserved groups could be accomplished by targeting new aid toward these groups, by redistributing currently outstanding commitments, or both. Because the majority of outstanding aid is tied to specific projects, however, shifting these commitments to different groups would involve adapting these projects to a different use. Since this would be infeasible in some cases and extremely expensive in many others, such options were not examined. The options presented here only involve the distribution of new aid, which could be distributed according to each group's proportion in the eligible population or so as to equalize the proportion of the various types of very-low-income households served.

Distribute New Aid According to the Groups' Share in the Eligible Population. New housing commitments could be apportioned according to the relative sizes of various groups of eligible households in the very-low-income population. If all single-person households and groups of unrelated individuals--many of whom are not automatically